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AMCONSUL DUBAI

S E C R E T ABU DHABI 000127

STATE FOR EB
TREASURY FOR IA

E.O. 12958: DNG: CO 02/01/2029
TAGS: AE ECON IR
SUBJECT: ABU DHABI OPTIMISTIC ON GLOBAL ECONOMY, NOT
CURRENTLY AIDING DUBAI

Classified By: Ambassador Olson for reasons 1.4 b and d.

¶11. (S) Summary. On 1 February 2009, Ambassador Olson met with Hamad al Hurr al Suwaidi, the effective head of Abu Dhabi's Department of Finance and board member of Abu Dhabi's largest sovereign wealth fund the Abu Dhabi Investment Authority (ADIA). Hamad expressed optimism about recovery prospects for the global economy, expected a gradual resumption of investor risk appetite in the near term and dismissed reports that Dubai has requested financial assistance from Abu Dhabi. Hamad praised the statements emanating from the November G-20 -- particularly those rejecting protectionism -- and reaffirmed the UAE's interest in contributing constructively to the global recovery effort. End Summary.

GLOBAL ECONOMY AND ABU DHABI BORROWING

¶12. (C) Regarding the global economy, Hamad stated that Abu Dhabi expects a stabilizing in U.S. growth numbers which will lead the global recovery process. He cited recent figures indicating positive real disposable income numbers in the U.S., held steady by falling energy prices and favorable mortgage refinancings even in the face of rising unemployment. On Abu Dhabi growth prospects, Hamad said that in the UAE banking system, 80% of deposits are owned by Emiratis who make up only 20% of the population. As a result, in order to sustain domestic growth, funds must be attracted from abroad or come from the government. He confirmed that the government of Abu Dhabi has stepped in to provide additional capital to Abu Dhabi banks in order to fill the gap left by tight international credit markets, flight to quality and the end of dirham speculation. These measures supplement the liquidity facilities implemented by the UAE Central Bank.

¶13. (C) Hamad stated that globally, the corporate borrowing numbers for January looked much improved, and that according to Abu Dhabi's investment bank advisors, strong emerging market borrowers such as Abu Dhabi may be well positioned to tap international credit markets in the near term. He said that Abu Dhabi is considering using its AA credit rating to borrow on behalf of Abu Dhabi banks and government backed entities, assuming market conditions hold. Hamad believes that embattled emerging market borrowers such as Russia will face significant challenges obtaining overseas funding in the current environment.

¶14. (C) Hamad was not concerned by the amount of public sector borrowing being contemplated globally for the various bailout and stimulus packages. He noted that with the current loss of risk appetite, someone has to borrow to sustain economic activity. However, with money market funds and institutional investors sitting on historically high levels of low yielding cash and cash equivalents, and leading indicators suggesting economic stabilization approaching, Abu Dhabi expects credit markets to further thaw. In the mean time, Hamad did not find unreasonable the prospect that U.S. stimulus and bailout out numbers could reach double current projected estimates.

15. (C) Hamad looked favorably upon recent USG measures to ring fence bad assets at Bank of America, and welcomed similarly structured measures as an effective method to stabilize the banking sector, restore confidence and stimulate lending. He remains optimistic about Citibank's prospects once it completes reorganization and weathers the current economic storm.

ABU DHABI NOT CURRENTLY AIDING DUBAI

16. (S) Asked about recent comments from UAE Federal National Council and Mashreqbank head Abdul Aziz al Ghurair encouraging Abu Dhabi to spend some of its huge reserves on domestic projects, Hamad responded 'wishful thinking.' Hamad stated that Abu Dhabi estimates Dubai debt to be between USD\$80-90 billion, but that Dubai has not approached the Emirate of Abu Dhabi for financial assistance. He mentioned ongoing conversations regarding Dubai's refinancing of its Bourse Dubai debt, whose origins predate Dubai's financial woes, but that to date financial terms had not been agreed to by the two sides.

G-20

17. (C) Hamad praised the final statement of the G-20 November meetings, in particular its calls to resist protectionism which Hamad identified as a key ingredient that worsened the great depression of the 1930s. He encouraged a coordinated global response to this global problem, and suggested that key emerging market countries, such as the UAE, had much to contribute to the recovery process and the accompanying international dialogue. Hamad encouraged the U.S. to include the UAE in future discussions via UAE Foreign Minister Sheikh Abdullah bin Zayed al Nahyan.

ABU DHABI REAL ESTATE MARKET

18. (U) Hamad stated that the Government of Abu Dhabi has been closely following pricing in the Abu Dhabi real estate market, and has actually monitored a small decline in rental prices for the first two weeks of January -- a welcome reprieve to soaring rental prices that have plagued Abu Dhabi's economy for the last couple years. Hamad believes that long term housing demand in Abu Dhabi will remain strong. He cited several government backed projects that will require large numbers of housing units, including the expansion of Etihad Airways, the Masdar initiative and the AMD chip foundry.

OLSON